



SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1943

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**No. 686**

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MILES NATIONAL FARM LOAN ASSOCIATION,

*vs.*

*Petitioner,*

THE FEDERAL LAND BANK OF HOUSTON,

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*Respondent.*

**SUPPORTING BRIEF.**

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*To the Supreme Court:*

We find no adjudicated cases which throw any light upon the problem now presented to the Court.

There are a few decisions which announce the obvious rule that the Land Banks and the National Farm Loan Associations are instrumentalities of the United States and that they are distinct corporate entities.

*Smith v. Kansas City Title & Trust Company, et al.*,  
255 U. S. 180, 65 L. Ed. 577, 41 S. Ct. 243;

*Federal Land Bank v. Gaines*, 290 U. S. 247, 78 L. Ed.  
298, 54 S. Ct. 168;

*Federal Land Bank v. Priddy*, 295 U. S. 229, 79 L. Ed  
408, 55 S. Ct. 705;

*Knox National Farm Loan Association v. Phillips*, 30  
U. S. 194, 81 L. Ed. 599, 57 S. Ct. 418;  
*Federal Land Bank v. Bismarck Lumber Co.*, 314 U. S.  
95, 86 L. Ed. 65.

Both the Federal Land Banks and the National Farm Loan Associations have come into existence solely through the provisions of the Federal statute and each is just as important as the other in the scheme of the legislation. It is true that the Bank issues and markets the bonds, that it is the center through which must funnel all the various phases of activity required to transfer long term low interest credits from the large investors to the myriad small borrowers and that it must be managed by learned men trained in the practices of finance. On the other hand, it is equally true that the Association is the primary placer of the individual loans. It is the local organization charged in the first instance with determining the suitability of the borrower and his needs as measured by the purposes of the Act and it is required through endorsement or guaranty back that determination with all its assets. It has the duty to follow and assist its members through the vicissitudes of their calling, and it is expected that it will be managed by common men of the community familiar with the problems of the borrowers and constantly in touch with changing conditions local or personal in their nature or effect.

It is the intention of the Act that normally loans shall be made through the Associations and that loans otherwise made are to be made only to meet some special circumstance. This is apparent from a reading of the Act, and the Annotations in U. S. C. A., Title 12, Paragraph 691, refer to an opinion of the Attorney General, 31 Op. Atty. Gen. 494, which indicates that the Attorney General so has ruled.

The question is not one of agency. The Associations are local cooperative organizations of borrowers through which

the Land Banks make their loans. *Federal Land Bank v. Bismarck Lumber Co.*, 86 I. Ed. at Page 71.

It is obvious that the Act intends for the Association to continue to serve some purpose after it has made its last loan. U. S. C. A., Title 12, Paragraph 714, says in so many words that the Secretary-Treasurer shall pay over the proceeds of the loan to the borrower and that acting under the direction of his Association he shall collect, receipt for and remit to the Bank payments on loans made through the Association. He is required to furnish bond covering the collection and transmission of the funds, to make quarterly reports to the Farm Credit Administration and from time to time as the occasion demands to make other reports in regard to the outstanding loans of his Association.

When the Secretary-Treasurer carries on the business of the Association he in effect is acting for and on behalf of the member borrowers who cooperatively have joined themselves together in the Association. It happens that in the present case the Miles Association has a surplus or reserve of about \$17,000.00 (R. 70) to be protected against \$577,036.41 total endorsements or guaranties (R. 45, 46). This surplus belongs to the Miles Association and it has been accumulated over the years through which that Association has functioned. The Association was formed and its loans were made and its obligations were incurred in the light of the provisions of the Farm Loan Act. Is it now to be destroyed and are the "principles of cooperate credit and organization" about which the Farm Credit Administrator is directed by Section 3 of the Act to inform and instruct the farmers now to be cast from the operating principles as originally laid down?

Argument of the amici curiae that Code Section 781 read with Code Section 714 must be interpreted as meaning that an approved and chartered Association can continue to func-

tion as such only under permission from the Bank seems possibly to have its source more in the desire for an end than in a careful consideration of the two sections read with the other provisions of the Act and interpreted in the light of the unquestioned fact that the very basis of the plan insofar as the borrowing farmer is concerned is the local co-operative organization.

Section 791 of the Code which is Section 14 of the Act originally provided that all loans should be made through local associations except as provided in Section 15. Section 15 authorized direct loans to borrowers by the Bank only upon authorization from the Federal Farm Loan Board after its determination that "because of peculiar local conditions" no Association probably would be formed in the locality involved. Code Section 723 now provides for direct loans only under certain conditions therein specified.

It is apparent that from the first it was provided that in exceptional circumstances loans might be made other than through Associations and if Section 781 of the Code which authorizes the Bank "to empower National Farm Loan Associations, or duly authorized agents, to collect and immediately pay over to said Land Banks" payment on its loans is to be read in complete harmony with Code Section 714 which specifically provides that the Secretary-Treasurer shall make collections of and receipt for payments of the loans through his Association, then it seems reasonable that the quoted provision of Code Section 781 should be construed so as to apply to those loans not made through Associations.

Petitioner feels that it is as much an integral part of the system created and put in effect by the Federal Farm Loan Act as is the Respondent and it feels that when it acts in regard to its loans, either by collecting payments thereon from its members or otherwise, that it is acting for itself

and for its member borrowers and not for the Land Bank at Houston. Its right so to act flows from its statute of creation and not from any permission granted by the Bank.

The plan of the Banks to destroy local Associations through grouping and consolidation may aim at a more efficient collection of the loans outstanding but it necessarily destroys the local cooperative control which Congress decreed proper to effect the purpose and end it had in view. It is submitted that the advisability of such a step should be determined by the makers of the law.

We feel that the Associations are as important as are the Land Banks. The Associations, because of their surpluses, now have a great deal of money.

We feel that the Supreme Court should rule on this case so that there will be no uncertainty in relation to the point presented.

Petitioner suggests that as an endorser and guarantor under the provisions of the Act it has certain vested rights in connection with the loans made by it, among which is the right to collect or assemble the payments of its members and transmit them to the Bank.

Respectfully submitted,

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Farm Loan Association.*